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New rules for internal invoicing in H2020 compared to FP7 and their problems for universities

Fifth Meeting of the WG 2 Finance
COST Targeted Network TN1302: BESTPRAC

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Sources:
Martin Baumgartner, FFG – Internal workshop
Position of academic & non-commercial research organisations, research councils and regions - January 2016 - Joint statement)
FP7 Financial guidelines
H2020 annotated Model Grant agreement (aMGA)

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Medical University Innsbruck

- Founded 2004 – former Faculty of Medicine University of Innsbruck (founded 1669)
- approx. 2.900 students
- 1800 employees
- Yearly budget approx. 260M€ (2014)
- Approx. budget. 38 M€ (2014) running external funded research projects
- Approx. 20 M€ funding from FP7/H2020 until 2015
- 92 applications H2020
- Service Center Research: 4,5 + 2 persons

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Definitions – internally invoiced costs

- The use of a certain resource is shared between different divisions of the organisation and the costs of their use are declared via internal invoices
- The use of the resource often contains a mixture of services and materials together with the necessary maintenance.
- The internally invoiced costs therefore include costs for service, equipment, materials and maintenance.

-> in University context mainly „Core facilities“

(source: Position of academic & non-commercial research organisations, research councils and regions - January 2016 - Joint statement)

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Fincancial guidelines FP7

- (h) Internally invoiced costs:
- Sometimes the use of certain equipment or facilities is shared between the different units of the same legal entity, and the costs of their use are charged through internal invoices. This type of costs may be **eligible** if their **use for the project** and the usage is **properly recorded**.
- In such case, the costs claimed must represent a fair apportionment and be based on objective, measurable and auditable criteria's.
- Internally invoiced personnel costs for project specific activities may be eligible if the time worked on the project is substantiated by records covering all the workable time of the relevant personnel.

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Fincancial guidelines FP7

- The eligible hourly rate must be calculated based on the actual cost for salaries and social harges incurred by the beneficiary .
- Internal invoicing may apply also to **items like animal maintenance, computer runs, laboratory tests and other** similar services where it is **difficult to substantiate the actual time and the actual cost** of each individual involved in each individual operation, and where an average personnel cost per type of animal, type of computer run, type of test etc. has been calculated based on the actual costs incurred for the personnel involved.
- For these costs to be eligible the calculation of costs must be auditable.
- The same logic applies to equipment, consumable or any other specific direct costs: where it is difficult to substantiate the actual cost of each individual test or use an **average cost may be calculated** per type of test based on the actual cost of the equipment and consumables used and other specific direct costs such as maintenance of equipment provided.

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Fincancial guidelines FP7

- The same logic applies to equipment, consumable or any other specific direct costs: where it is difficult to substantiate the actual cost of each individual test or use an **average cost may be calculated** per type of test based on the actual cost of the equipment and consumables used and other specific direct costs such as maintenance of equipment provided.
- However, the **calculation of costs must be auditable**. Internally invoiced overheads are normally not eligible as direct project costs. For beneficiaries charging overheads in accordance with Article II.15.2. b) and c) all overheads are covered by the applicable flat-rate contribution.

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Situation FP7

- Invoicing of costs between departments of one beneficiary are eligible
- if
 - a) The costs can be clearly allocated to the project
 - b) The costs are recorded according to the guidelines in the accounting system
- **Costs must be**
 - Distributed fairly
 - Based upon clear, objective, measurable and auditable criteria

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Situation FP7

- **Personal costs:**
 - Recording via timesheets necessary
 - Total working hours of the relevant personnel
 - Hourly personal costs must be based on actual costs
- **Average costs per unit for e.g.**
 - Animal housing,
 - Computer calculations,
 - Lab tests etc..
- ...eligible if the calculation model for these costs are auditable and the average unit costs per animal, computer test, etc. are based on real actual costs
- Same principle applies for equipment costs, consumables etc.

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Situation FP7

- Communication with the EU Commission:
- Problem: the average unit costs have been included in many cases not only the direct costs but also (parts of) indirect costs – this could not be verified in a precise or justifiable manner

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H2020 aMGA

- **Internally invoiced costs** — **Internally** invoiced **costs** (i.e. where the use of certain resources is shared between different units of the same organisation and the costs of their use are declared through internal invoices) **may be eligible** if their use and the usage (number of hours) for the action is specifically **recorded and it is mentioned in the invoice**. The internal invoice must refer to the use/dedication for the action of specific resources (*e.g. per researcher, piece of equipment, etc.*).

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H2020 aMGA

- **Example (acceptable internal invoice):** Internal invoice with 16 hours of the technician doing the analysis and 10 hours depreciation of the testing equipment used.
- **Example (not acceptable internal invoice):** Internal invoice with a global price for the use of a research infrastructure (e.g. laboratory) or for a service (e.g. an analysis).
- The costs **must be declared under the budget category** that corresponds to the invoiced resource (e.g. personnel, equipment, other direct costs, etc.) and **must fulfil the eligibility conditions** set out in Article 6.1 and 6.2.

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H2020 aMGA

- Internal invoices may NOT include indirect costs elements or profit margin or mark-up.
- Internal invoices for the work of personnel must be supported by time records (see Article 18.1). The hourly rate must be calculated as described in Article 6.2.A.
- Internal invoices for the use of equipment must be limited to the depreciation for the relevant reporting period (only the part of the depreciation cost corresponding to the time the equipment was used for the action during that reporting period can be declared.) The use of the equipment must be properly recorded in order to allow direct measurement of the use for the action and to ensure auditability (see Article 6.2.D.2). **It is NOT possible to calculate an all-in average cost** of internally invoiced equipment including, for instance, allocated indirect costs (e.g. maintenance).

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Situation H2020

- General eligibility rules have to be applied
- Calculation of invoiced costs based on general cost categories necessary (e.g. 16 person hours for analytic work by technician plus 10 hours depreciation costs for durable equipment used)
- „all-in average costs“ e.g. for lab use or analytical work are NOT eligible anymore
- Use for the project an time-of-use must be documented and indicated on the invoice
- NO indirect costs must be included
- NO profit, NO additional gain marge

Attention: unlike as in FP7 the calculation of average costs is NOT allowed!

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Situation H2020

- Internally invoiced personel costs:
 - Calculation of hourly rates according to the general aMGA principles
 - Time recording necessary and crucial
 - → Reimbursement under „personel costs“
- Internally invoced costs for the use of durable equipment:
 - Pro-rata depreciation costs for the relevant reporting period (time share for the project)
 - Time of use for the project must be recorded precisely in order to get measurable and auditable costs to the action
 - → Reimbursement under „other direct costs“

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Problems for universities arise

- When:
 - it is not possible for the beneficiary to calculate the actual costs and/or
 - the calculation and/or presentation of the actual costs cause an internal effort too big to justify the benefits gained by the reimbursability of the costs

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Feedback Commission

- Under Horizon 2020 internal invoices must refer to the use/dedication for the project of specific resources (e.g. a researcher, a piece of equipment, etc). Therefore, in general terms it is **not possible to charge an internal invoice with an average price for the use**, for example, of a research infrastructure (e.g. laboratory) or for a service (e.g. an analysis). In contrast, it would be possible to charge an internal invoice, for example, with 16 hours of the technician doing the analysis and 10 hours depreciation of the testing equipment used.
 - Closer details see also aMGA

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Possible solutions / strategies

(and their possible implications)

- Re-designing the internal procedures and accounting according to the aMGA rules -> impossible in most cases
- NO use of core facilities -> less excellence
- Outsourcing of the internal service providers – into distinct external entities -> higher costs
- Subcontracting of the tasks -> higher costs
- Abdication of cost reimbursement -> less involvement in H2020 projects (no commitment of univ. administration)
- Coordinated effort facing to the Commission to adapt the rules
- Any other idea?

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Recent initiatives

- Since April 2015 communication with commission from MUI / FFG
- Jan 2016: New initiative led by Helmholtz Gesellschaft – Joint statement: Germany, Denmark, UK, Sweden, Belgium, Italy
 - Helmholtz Association, HRK (Hochschulrektorenkonferenz), Research councils UK, Leibniz Association, Charité, Technical University of Denmark, Karolinska Institutet, Universities UK, University of Copenhagen, Lund University, University of Gothenburg, Uppsala Universitet, KTH (Königlich Technische Hochschule), Umea Universitet, The Capital Region of Denmark, Research Foundation Flanders, Linköping University, National Research council of Italy

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Recent initiatives

- Proposed solutions:
 - Possibility of total internal costs invoicing as a package within the same cost category
 - Creation of a new cost category („Internal invoiced goods and services“ similar to subcontracting
 - Acceptance of internally invoiced costs as package via „other costs“ excluding overheads without splitting up into further cost categories
 - General feasibility condition: set costs per usage which include the pro rata services calculated on an annual basis

(source: Position of academic & non-commercial research organisations, research councils and regions - January 2016 - Joint statement)

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Thank you very much for your attention!

Discussion

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